

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



INDOOR PLAYGROUNDS INC.

ANNUAL REPORT 1997

ANNUAL REPORT

The past year has been a year of significant change for **Bonkers Indoor Playgrounds Inc.** ("Bonkers"), including changes in all areas of the company, which will see Bonkers moving progressively forward into the 21st century.

THE BOARD OF DIRECTORS

Mr. David Anderson, who was previously an outside director, is now **President and Chief Executive Officer**. Also joining him on the Board of Directors is **Myles McGovern, Michael Blum and F. Garfield Anderson**. Ken Komenda, Lindsey Semple and Rob Wilson have resigned from their positions and are currently pursuing other interests.

Mr. Myles McGovern is the President of **MC² Learning Systems Inc.**, based in Burnaby, BC. Mr. McGovern has a broad base of experience with a Business and Computing Science background from Simon Fraser University as well as ten years with Xerox Canada Ltd.. Mr. McGovern has shown his greatest success in the implementation of strategic actions to consistently exceed corporate objectives.

Mr. Michael Blum has been in the investment business since 1968. Mr. Blum was with **Majendie Charlton Securities** in Toronto, ON until January 1997 when Majendie closed their office in Toronto. Mr. Blum is currently self-employed as a Corporate Consultant and specializes in institutional equity and corporate finance.

Mr. F. Garfield Anderson B.Ed., M.Ed., has over 40 years experience as an educational leader in a variety of positions, including classroom teaching, the associate superintendency in public schools, acting president of an art college, university teaching, and volunteer teaching in Nepal. He is a specialist in elementary education, leadership and organizational skills.

HEAD OFFICE

Along with the change in management we have relocated Head Office to Calgary, in part to be closer to our retail operations, two of which are located in Alberta and to be closer to our Board of Directors and our new Regional Manager. The Head Office is now at #500, 505 - 8th Ave. SW, Calgary, AB T2P 1G2.

Due in part to this closure, Hamish Malkin and Hessam Azizi have resigned from Bonkers. Taking over the position of **Chief Financial Officer** is **Mr. Kevin Dumba**. Mr. Dumba has 6 years experience in both public and private corporate finance and accounting with emphasis in the oil and gas industry. Mr. Dumba was the controller for **Outrider Resources Ltd.** until mid December 1996 when the company was sold.

Joining the Bonkers team in Calgary is **Mrs. Natasha Sorobey** as the head of **Corporate Communications**. Mrs. Sorobey has an extensive background in communications and has worked for companies in New York, Vancouver, and Los Angeles. Mrs. Sorobey's role is acting as a liaison between the shareholders and the corporation.

Ms. Deb Mathias, formerly **General Manager** of Bonkers, has been promoted to the position of **Regional Manager** for all Bonkers stores. Ms. Mathias has shown tremendous strength in team leadership and superior management skills. Her expertise was recognized recently when Bonkers Market Mall became the recipient of three awards from "**Calgary's Child Magazine**". In the category of "**Calgary's Parent Choice Awards**", Bonkers won the award for "*Best Indoor Playground*" "*Best Birthday Parties*" and was Runner-up for the "*Best Place to be on a Cold Day*".

OPERATIONS

Market Mall

Bonkers in Calgary, AB is continually showing growth. This location will continue to be our "Flag Ship" for Bonkers. Our team at this facility is the reason for our success. This is done through continuous training and team meetings covering all areas of the daily operations. New ideas are being piloted on a regular basis at this location and then implemented at our two other locations. A proposal has been sent into the City of Calgary for us to operate a Pre-School. This will be a major contributor to increased profitability. We believe that programs such as this will be our differential advantage and is what will keep us ahead of any and all competition.

Lansdowne

Operations at our Richmond location are viewed as a turn around opportunity. New short term action plans have been established and are presently being implemented working on increasing the sales and profitability of this facility. Guest service and team training, will be our main focus. We will also continue our tradition of outstanding Guest Service and team training. Continued improvement in these areas will help us attain the future goals and growth at this facility. Community involvement, Marketing, Advertising and monthly specials/promotions will be a key factor in attaining our Bonkers image in Richmond, BC.

White Oak Square

Our Edmonton Bonkers is a turn around site. This operation is now in its fifth month of operation and has shown increased growth. The growth is slower than anticipated at this time, but expenses have been reduced to keep the overall profitability of this location showing continuous improvement each month. This location will become a strong solid base for Bonkers. It will not show the sales as that of Calgary, but the profitability will be one that we can rely on. We are also applying for a license to operate a Pre-School at this location as well.

MARKETING AND PROMOTIONS

A great deal of work is being done to achieve consistency in all three locations, from Guest Service to all our offerings. Advertising packages are being set up by individual sources and being distributed in the three cities, thus reducing operating costs. All of Bonkers advertising literature will have all the locations on each one, and will be distributed in all the Bonkers. This will reduce advertising costs a great deal. Bonkers will be widely known and seen through schools, community involvement, fund raising and the Children's Hospital. Parents will see our commitment to their children through our actions and involvement.

THE IMMERSIVE MEDIA COMPANY

We are looking forward to a very bright future with the pending acquisition of **Dodeca LLC**, an immersive media production company based out of Portland, OR.. On October 15, 1996 Bonkers entered into a letter of intent to acquire the assets of Dodeca LLC. It is anticipated that the assets will be held by Bonkers through a new wholly-owned subsidiary incorporated in Oregon, to be called the *Immersive Media Company*.

Dodeca LLC was created to be world leader in the development and application of total immersive media through its patented, proprietary technology known as the **RoundAbout™ Immersive Video System**. The standardized video imaging system captures live action, spherical (360°) images of the natural world. State-of -the art computer images and special effects are also planned to be incorporated into the system. The audience can be completely surrounded by a unique, compelling video and audio experience. **RoundAbout™** is a system of tools for the current immersive imaging needs of creative producers, industrial designers, architects and engineers, with applications in multiple markets beyond conventional, computer-based virtual reality technology.

Bonkers will retain the current management of **Dodeca** to oversee the development of its **Immersive Media Co.** subsidiary, which will specialize in immersive media technology systems and the production of immersive programs and content. The management team includes **Peter Giambrone, Chief Executive Officer and President. David McCutchen, Senior Executive Vice President and Chief Technical Officer, and Stuart Ellis, Senior Executive VP for Programming Development.**

Mr. Peter Giambrone has over 18 years experience in the communications industry. He was an executive manager for the development and launch committees of **MTV, Nickelodeon, Arts & Entertainment, The Movie Channel, and The Disney Channel**, for which he was director of on-air promotions and operations for over three years. **Mr. Giambrone** is the author of several articles published in established communications industry trade journals and holds a BS in Communications and Media for Medaille College in New York.

Mr. David McCutchen is the inventor of **RoundAbout™** spherical imaging. He is a graduate of UC Santa Barbara and the California Institute of the Arts, where he received an MFA in Motion Graphics. In addition to patents written for **Dodeca**, **Mr. McCutchen** is also the inventor of the **Soundtracker™** acoustic synchronizer, designed for automatic dialogue and sound replacement. **Mr. McCutchen** has been featured in **Who's Who in America, Who's Who in Entertainment, and Leaders in American Innovation.**

Mr. Stuart Ellis is a multi-dimensional artist/musician/producer/animated whose work has spanned 41 years thus far. From the early days of Rock & Roll, through experimental, improvisational jazz to World Beat music, Stuart has played, recorded and toured with various bands all over the US and Europe. In addition, he has an extensive background in video and television production, including music videos and award winning animation. His latest project before the start of **Dodeca**, was a video documentary on musician **Wynton Marsalis**, produced for **Sony Music**. He received his BBA, majoring in marketing and advertising, from Hofstra University in New York.

See attached corporate profile.

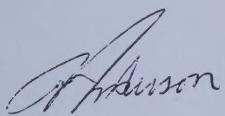
OUTLOOK FOR 1997

The coming year brings both significant challenge and opportunity which will be met by the company with creativity and discipline.

The primary task, as we go forward will be to ensure our businesses are properly funded and profitable.

There appears to be considerable upside if the Dodeca acquisition is approved and we can successfully fund and commercialize the technology. Shareholders should be reminded that both Bonkers and Dodeca are very speculative ventures and carry significant risk, with risk both upside and downside.

As we go forward we will place the shareholders interest first and take advantage of all opportunities to build fundamental value.



DAVID G. ANDERSON
President and CEO

BONKERS INDOOR PLAYGROUNDS INC.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 1996 AND 1995

CONTENTS

PAGE NO.

CHARTERED ACCOUNTANTS' COMMUNICATION
Auditor's Report

1

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheet

2

Consolidated Statement of Loss and Deficit

3

Consolidated Statement of Changes in Financial Position

4

Notes to Consolidated Financial Statements

5-15



**MIKULAK
RUBIN
&
NAGY**

CHARTERED ACCOUNTANTS

Suite 440, Mount Royal Place
1414 - 8th Street S.W.
Calgary, Alberta T2R 1J6
(403) 245-1515
Fax (403) 228-0183

MURRAY A. MIKULAK, B.Comm., C.A.*
ARTHUR B. RUBIN, B.Sc., M.B.A., C.A.*
ADRIAN L. NAGY, B.Comm., C.A.*

1.

AUDITOR'S REPORT

To: The Directors

We have audited the consolidated balance sheet of Bonkers Indoor Playgrounds Inc. as at September 30, 1996 and 1995, and the consolidated statements of loss and deficit, and consolidated statement of changes in financial position for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 1996 and 1995, and the results of its operations and the changes in its financial position for years then ended, in accordance with generally accepted accounting principles.

Chartered Accountants

Calgary, Alberta
February 12, 1997

BONKERS INDOOR PLAYGROUNDS INC.

CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 1996 AND 1995

| | ASSETS | <u>1996</u> | <u>1995</u> |
|--|-------------------------|-------------------------|-------------|
| CURRENT | | | |
| Cash and short-term deposits | \$ 167,658 | \$ 88,615 | |
| Accounts receivable | 11,748 | 6,748 | |
| Due from Komenda Capital Corp., note 7 | 35,000 | - | |
| Inventories | 28,345 | 40,165 | |
| Prepaid expenses | <u>90,772</u> | <u>39,641</u> | |
| LOAN TO DODECA LLC, note 3 | 333,523 | 175,169 | |
| CAPITAL, note 4 | 15,351 | - | |
| EXCHANGE LISTING COSTS | <u>1,401,606</u> | <u>1,322,237</u> | |
| | <u>-</u> | <u>171,496</u> | |
| | <u>\$ 1,763,424</u> | <u>\$ 1,668,902</u> | |

| | LIABILITIES | | |
|---|--------------------|--------------------|--|
| CURRENT | | | |
| Accounts payable | \$ 126,279 | \$ 305,608 | |
| Goods and service tax payable | 26,036 | 18,703 | |
| Interest payable on long-term debt | 21,960 | 33,445 | |
| Current portion due of long-term debt, note 5 | <u>214,934</u> | <u>216,542</u> | |
| LONG-TERM DEBT, note 5 | 389,209 | 574,298 | |
| | <u>14,293</u> | <u>49,647</u> | |
| | <u>403,502</u> | <u>623,945</u> | |

SHAREHOLDERS' EQUITY

| | | | |
|---|-------------------------|-------------------------|--|
| SHARE CAPITAL | | | |
| Authorized: | | | |
| Unlimited number of common shares | | | |
| Issued, note 6 | 3,034,667 | 2,034,667 | |
| Share issuance costs | <u>(520,345)</u> | <u>(148,700)</u> | |
| DEFICIT | | | |
| | 2,514,322 | 1,885,967 | |
| | <u>(1,167,344)</u> | <u>(841,010)</u> | |
| | <u>1,346,978</u> | <u>1,044,957</u> | |
| APPROVED ON BEHALF OF THE BOARD: | | | |
| | <u>\$ 1,750,480</u> | <u>\$ 1,668,902</u> | |

David Anderson

Myles McGovern

BONKERS INDOOR PLAYGROUNDS INC.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

| | <u>1996</u> | <u>1995</u> |
|--------------------------------|------------------------|----------------------|
| REVENUE | \$ 1,498,755 | \$ 1,493,164 |
| COST OF REVENUE | <u>1,345,715</u> | <u>1,226,859</u> |
| GROSS MARGIN | <u>153,040</u> | <u>266,305</u> |
| OTHER EXPENSES | | |
| Amortization of capital assets | 145,832 | 135,488 |
| General and administrative | 182,651 | 229,173 |
| Interest | 28,304 | 30,269 |
| Revenue sharing | 76,423 | 65,473 |
| Selling expenses | <u>46,164</u> | <u>95,391</u> |
| | <u>479,374</u> | <u>555,794</u> |
| NET (LOSS) FOR THE YEAR | (326,334) | (289,489) |
| DEFICIT, beginning of year | <u>(841,010)</u> | <u>(551,521)</u> |
| DEFICIT, END OF YEAR | <u>\$ (1,167,344)</u> | <u>\$ (841,010)</u> |
| LOSS PER SHARE | <u>\$ (0.02)</u> | <u>\$ (0.06)</u> |

BONKERS INDOOR PLAYGROUNDS INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

| | <u>1996</u> | <u>1995</u> |
|--|-------------------|------------------|
| CASH FUNDS PROVIDED BY (USED IN) | | |
| OPERATING ACTIVITIES | | |
| Operations: | | |
| Net (loss) for the year | \$ (326,334) | \$ (289,489) |
| Item not requiring an expenditure of funds: | | |
| Amortization of capital assets | <u>145,832</u> | <u>135,488</u> |
| | (180,502) | (154,001) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (40,000) | 34,795 |
| Inventories | 11,820 | (19,428) |
| Prepaid expenses | (51,131) | (11,845) |
| Accounts payable | (147,881) | (110,467) |
| Refundable deposits | - | 35,000 |
| Loan to Komenda Capital Corp. | <u>(35,000)</u> | <u>-</u> |
| | <u>(442,694)</u> | <u>(225,946)</u> |
| FINANCING ACTIVITIES | | |
| Funds repaid to director | - | (20,000) |
| Share issuance costs | (200,149) | - |
| Issuance of shares for cash | 1,000,000 | 205,296 |
| Reduction on other long-term debt | (36,962) | (27,969) |
| Cash on deposit as collateral | - | 50,000 |
| | <u>762,889</u> | <u>207,827</u> |
| INVESTING ACTIVITIES | | |
| Loan to Dodeca LLC | (15,351) | - |
| Purchase of capital assets | (225,801) | (58,057) |
| Exchange listing costs | - | (129,844) |
| | <u>(241,152)</u> | <u>(187,901)</u> |
| INCREASE (DECREASE) IN CASH FUNDS FOR THE YEAR | 79,043 | (206,020) |
| CASH FUNDS, beginning of year | <u>88,615</u> | <u>294,635</u> |
| CASH FUNDS, END OF YEAR | <u>\$ 167,658</u> | <u>\$ 88,615</u> |

BONKERS INDOOR PLAYGROUNDS INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
SEPTEMBER 30, 1996**1. THE CORPORATION**

The Corporation was incorporated as 566766 Alberta Ltd. on May 12, 1993, under the provisions of the Business Corporations Act of the Province of Alberta. On August 25, 1993, the Corporation changed its name to Wingate Equities Ltd. and on March 30, 1994 it changed its name to Bonkers Indoor Playgrounds Inc.. The Corporation has acquired the world-wide rights to operate and or market "Bonkers" indoor playgrounds in retail locations. The Corporation owns and operates two retail locations with a third location under construction at the year end.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis of generally accepted accounting principles applicable to a going concern which assumes that the Corporation will continue to be able to realize its assets and discharge its liabilities in the normal course of business. Additionally, these financial statements are prepared on other accounting policies of which the more significant ones are:

a) Basis of Business Combinations

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries as follows:

i) 383059 B.C. Inc.

Raised equity and partially funded 437568 B.C. Ltd.

ii) 437568 B.C. Ltd.

Set up retail location of "Bonkers Indoor Playground" in Richmond, British Columbia.

iii) Bonkers Indoor Playgrounds (Market Mall) Inc.

Set up retail location of "Bonkers Indoor Playground" in Calgary, Alberta.

iv) Bonkers Indoor Playgrounds (White Oak) Inc.

Set up retail location "Bonkers Indoor Playground" in Edmonton, Alberta.

The business combination was recorded using the purchase method. These consolidated financial statements include the financial position of the subsidiaries as at September 30, 1995 and 1996, and the results of their operations for the years ended September 30, 1995 and 1996.

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Inventories

Inventories are valued at the lower of costs and net realizable value; cost is generally determined on a first-in/first-out basis.

c) Amortization of Capital Assets

The Corporation has recorded its capital assets at cost, and is amortizing them on a straight-line basis over various terms as follows:

| | |
|---|---------------|
| Equipment | 5 to 10 years |
| Leasehold improvements | 5 to 20 years |
| Playground licence and rights, trademarks | 40 years |

Site investigation costs will be allocated to the capital assets at the future location, when it becomes operational. If the site is abandoned, then the costs will be written off in the year of abandonment.

d) Exchange Listing Costs

The Corporation became listed on The Alberta Stock Exchange in 1996 and as a consequence it offset the exchange listing costs against share issuance proceeds.

3. LOAN TO DODECA LLC

The Corporation has indicated its intent to acquire the assets of Dodeca LLC, a privately held United States based corporation involved in the audio-video multi-media industry. See notes 8 (d) and 10 (f).

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

4. CAPITAL ASSETS

| | | 1996 | | 1995 |
|--------------------------------|---------------------|--------------------------|---------------------|---------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Richmond store | \$ 776,174 | \$ 199,074 | \$ 577,100 | \$ 637,586 |
| Calgary store | 723,865 | 127,574 | 596,291 | 640,606 |
| Edmonton store | 181,723 | - | 181,723 | - |
| Head office equipment | 32,989 | 16,673 | 16,316 | 19,002 |
| Trademarks, site investigation | <u>30.176</u> | <u>-</u> | <u>30.176</u> | <u>25,043</u> |
| | <u>\$ 1,744,927</u> | <u>\$ 343,321</u> | <u>\$ 1,401,606</u> | <u>\$ 1,322,237</u> |

5. LONG-TERM DEBT

| | | 1996 | 1995 |
|--|-------------------|-------------------|------|
| a) Debenture Payable | | | |
| The Corporation has been authorized to issue secured convertible debentures in an amount not to exceed \$1,000,000, which bear interest at 12% commencing six months after the date of issue, with interest paid annually on or before September 30, each year. These debentures are convertible to common shares, at the option of the holder six months after the date of issue at a conversion price of \$.17 per share. The debentures are due March 31, 1997. | \$ 180,000 | \$ 180,000 | |
| b) Equipment Loan Payable | | | |
| Monthly payments include principal and interest payments of \$209, interest at 10%. The loan is due December 11, 1996. | 413 | 2,443 | |
| Equipment Loan | | | |
| Monthly payments include principal and interest of \$225, interest at 14.5%. The loan is due June 24, 1998. | <u>4,180</u> | <u>6,832</u> | |
| Total carried forward | <u>\$ 184,593</u> | <u>\$ 189,275</u> | |

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

5. LONG-TERM DEBT (continued)

| | <u>1996</u> | <u>1995</u> |
|--|------------------|------------------|
| Totals carried forward from page 7 | \$ 184,593 | \$ 189,275 |
| c) Bank Loan | | |
| Small business development loan with the Royal Bank secured by the playground equipment. Monthly payments are \$2,690 principal plus interest at the Royal Bank prime rate plus 1 1/2% over 5 years. | | |
| Bank prime was 8.0% on September 30, 1995. | <u>44,634</u> | <u>76,914</u> |
| Current portion due: | <u>229,227</u> | <u>266,189</u> |
| | <u>214,934</u> | <u>216,542</u> |
| | <u>\$ 14,293</u> | <u>\$ 49,647</u> |

The principal portion due in the next five years is as follows:

| | | |
|-------------------------------------|---|------------|
| 12 months ending September 30, 1997 | - | \$ 214,934 |
| 12 months ending September 30, 1998 | - | \$ 14,293 |
| 12 months ending September 30, 1999 | - | \$ - |
| 12 months ending September 30, 2000 | - | \$ - |
| 12 months ending September 30, 2001 | - | \$ - |

6. SHARE CAPITAL

a) Issued

During the year the Corporation through an Exchange Offering Prospectus on The Alberta Stock Exchange issued 2,000,000 shares for gross proceeds totalling \$2,000,000. The share costs associated with this issue totalled \$371,645 of which \$171,496 had been incurred prior to the 1996 fiscal year.

| A summary of the issued shares is as follows: | <u>1996</u> | <u>1995</u> |
|--|-------------------|-------------------|
| Number of shares issued | | |
| beginning of year, after giving effect of three for one stock split on May 9, 1995 | 12,978,072 | 12,513,292 |
| Shares issued in the year: | | |
| - private placement | - | 464,780 |
| - exchange offering prospectus | <u>2,000,000</u> | <u>-</u> |
| Total number of shares outstanding at year end | <u>14,978,072</u> | <u>12,978,072</u> |

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

6. SHARE CAPITAL (continued)

b) Warrants

The Corporation has issued and has outstanding two sets of warrants which entitle the holder to acquire one share for every warrant. The details of the warrants are as follows:

| | <u>1996</u> | <u>1995</u> |
|--|------------------|------------------|
| Warrants issued on private placement | | |
| - number of warrants issued = | 2,300,154 | 2,300,154 |
| - exercise price per warrant = | \$ 0.43 | |
| Warrants issued on Exchange Offering Prospectus | | |
| - number of warrants issued = | 2,000,000 | 2,000,000 |
| - exercise price per warrant = | \$ 0.55 | |
| Total warrants outstanding at year end | <u>4,300,154</u> | <u>2,300,154</u> |

The expiry date of the above warrants is January 29, 1997, note 10(1).

c) Stock Options

i) Option plan granted to employees:

The stock options previously granted prior to the current fiscal year were cancelled during the year. See note 10(g).

ii) Option granted to Agent

The Corporation granted its stock securities agents options to acquire 500,000 common shares at a price of \$.50 per share. These options expire January 29, 1997. See note 10(h).

d) Subsequent Events

See notes 10 (f) and (g).

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

7. RELATED PARTY TRANSACTIONS

The Corporation carried out transactions with related parties at values approximating fair market values, which would normally be associated with non-related parties. A summary of these transactions is as follows:

- a) The Great Canadian Indoor Playground Ltd. ("Great Cdn.")
Komenda Capital Corp. ("Komenda")

"Komenda" is related to the Corporation because Kenneth C. Komenda is a shareholder of "Komenda" and "Great Cdn.". Kenneth C. Komenda owns directly and indirectly 1,422,069 shares of the Corporation and exerted significant influence on it.

The Corporation had the following transactions:

| | <u>1996</u> | <u>1995</u> |
|--|-------------|-------------|
| "Komenda charged fees, expenses and GST totalling | \$ 26,177 | \$ 55,725 |
| "Komenda" received cash totalling | \$ 61,177 | \$ - |

8. COMMITMENTS

- a) **Capital Stock**
 i) Convertible Debentures, see note 5(a)
 ii) Warrants Outstanding, see note 6(b)
 iii) Stock Options Outstanding, see notes 6(c), 10(g) and 10(h).

b) **Equipment Rentals**

The Corporation has commitments for the rental of various pieces of equipment. These leases are being treated as operation leases wherein the annual lease costs are being treated as a period expense.

The annual commitments are as follows:

| | |
|---|-----------|
| For the 12 months ending September 30, 1997 = | \$ 10,633 |
| For the 12 months ending September 30, 1998 = | \$ 7,459 |
| For the 12 months ending September 30, 1999 = | \$ 4,583 |
| For the 12 months ending September 30, 2000 = | \$ 1,348 |
| For the 12 months ending September 30, 2001 = | \$ - |

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

8. COMMITMENTS (continued)

c) Premise Leases

The Corporation and its subsidiary have entered into the following premise leases:

i) Calgary, Alberta

On October 1, 1994, the Corporation entered into a 10-year lease agreement, with a five-year renewal clause for retail space for the Calgary store. The minimum annual lease payments are as follows:

| | | |
|--------------------------|---|----------------------|
| Years 1 and 2, inclusive | = | \$ 126,730 per annum |
| Year 3 and 4, inclusive | = | \$ 253,460 per annum |
| Years 5 to 7, inclusive | = | \$ 278,806 per annum |
| Years 8 to 10, inclusive | = | \$ 304,152 per annum |

The lease payments are on a gross basis and the Corporation is not responsible for its share of the building operating costs.

ii) Richmond, British Columbia

In 1993, the Corporation entered into a 10-year lease agreement which expires September 30, 2003, for retail space for the Richmond store.

The minimum annual payments are as follows:

| | | |
|---------------|---|----------------------|
| Years 1 to 3 | = | \$ 99,176 per annum |
| Years 4 and 5 | = | \$ 108,192 per annum |
| Years 6 to 10 | = | \$ 117,208 per annum |

The Corporation is responsible for its share of the building operating costs.

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

8. COMMITMENTS (continued)

c) Premise leases

iii) Edmonton, Alberta

In 1996, the Corporation entered into a 5-year lease agreement which expires September 18, 2001, for retail space for the Edmonton store.

The minimum annual lease payments plus operating costs are as follows:

| | |
|-----------------------|-----------|
| Year 1 to 5 inclusive | \$ 78,750 |
|-----------------------|-----------|

The Corporation is responsible for its share of the building operating costs. The lease agreement has a percentage of sales clause and is calculated at 30% of sales in excess of \$400,000 to a maximum charge of \$56,250.

The landlord has agreed to lend the Corporation \$45,000 in December 1996, with 24 monthly interest and principal payments of \$2,050 beginning December 1996.

d) Intention to Acquire Assets of Dodeca LLC

Prior to the year end the Corporation entered into a letter of intent to acquire the assets and assume certain liabilities of Dodeca LLC, a Corporation located in Portland, Oregon. Dodeca LLC is involved in the development and application of total immersive audio and visual media. The Corporation plans to acquire the business through the creation of a wholly owned United States based corporation. The Corporation would fund the acquisition as follows:

i) Cash Component

| | |
|-----------------------------------|----------------|
| - cash | \$ 639,225 |
| - assumption of Dodeca LLC's debt | <u>254,000</u> |
| | \$ 893,225 |

ii) Share Component

- issuance of 3,521,458 shares of the Corporation
- issuance of warrants entitling the holder to acquire 160,000 shares of the Corporation at an exercise price of \$0.50 per share.

See note 3 and 10(f).

e) Completion of Retail Store in Edmonton, Alberta

During the current year the Corporation began construction of the Edmonton retail store. The Corporation is estimating the cost (leasehold improvements and equipment) to total approximately \$ 275,000. At the year end the Corporation had incurred costs of \$181,723.

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

9. INCOME TAXES

The Corporation has non-capital losses totalling \$947,681 which may be utilized to reduce future income subject to corporate income taxes. The right to claim these losses expires as follows:

| | |
|-------------------|------------|
| October 1, 2001 - | \$ 446,070 |
| October 1, 2002 - | \$ 216,040 |
| October 1, 2003 - | \$ 285,571 |

The Corporation has capital losses totalling \$78,400 which can offset any future gains. These losses may be carried forward indefinitely.

The Corporation has amortized its capital assets for financial statement purposes in an amount totalling \$343,321 in excess of capital cost allowance claimed for income tax purposes.

The Corporation has unclaimed share issuance costs in an amount totalling \$324,497 which may be claimed for income tax purposes.

The potential income tax benefits attributable to the above items have not been reflected in these financial statements.

10. SUBSEQUENT EVENTS

a) Opening of a New Retail Location

On October 26, 1996 the Corporation opened its new retail store in Edmonton, Alberta.

b) Loan from Edmonton Store Landlord

In December 1996 the Edmonton store landlord lent the Corporation \$45,000.

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

10. SUBSEQUENT EVENTS (continued)

e) **Retail Store Rent Defaults**

The Corporation has not made its December 1996 monthly rent payments for its stores in Vancouver and Calgary.

f) **Acquisition of Dodeca LLC Private Placement and Directors' Stock Options Plan**

The Corporation has applied to the Alberta Stock Exchange to obtain approval to:

- issue treasury shares
- sell a private placement issue
- amend stock option place eligibility in order to facilitate the acquisition

g) **Employee - Director Stock Options**

The Corporation is proposing to issue 980,000 stock options with an exercise price of \$0.29 per option. The options will expire November 1, 2001.

h) **Options Granted to Agent**

These options were not exercised and have expired.

i) **Warrants**

The expiry date of the warrants was extended to December 31, 1997.

j) **Shareholder Loan to Corporation**

In January 1997, a shareholder advanced funds totalling \$130,609 to the Corporation. The terms are as follows:

- due on demand
- interest at 10%
- agreement over all assets was provided as collateral

BONKERS INDOOR PLAYGROUNDS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

10. SUBSEQUENT EVENTS (continued)

k) Private Placement - Operations

The Corporation is completing a private placement in order to pay out the debenture holders and provide working capital. The details of the issue of the issue are as follows:

- 1,500,000 shares to be issued at \$0.25 each (total gross proceeds - \$375,000).
- with a warrant attached to each share, exercisable at \$0.35 within the first year and \$0.50 within the second year. The warrants will expire two years after issuance.

